



KEY ECONOMIC FACTORS INFLUENCING THE FOREIGN TRADE IN THE EEU MARKET AND WITH THIRD COUNTRIES

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Key points

- EEU- an overview of the situation
- Foreign trade of KR – before and after
- Currency shocks as a factor in foreign trade
- Conclusion

Eurasian Economic Union (EEU)*

- Preceded EEU - the Customs Union (CU) has its roots from the 90'
- Creating EEU was laid precisely by the creation of the Customs Union between Belarussia, Russia and Kazakhstan in 2010
- Starting from 2012 the EEU agreement was signed,
- Transformation process of CU to EEU completed by the beginning of 2014
- Armenia and Kyrgyzstan joined in 2015

4 freedoms of movement:

1. Free movement of **goods** - free movement of goods in the EEU. In practice - exemption from **customs duties** only. Regulation - technical barriers.
2. Common market for **services** - a transition period up to 2025.
3. Common market of **labor**:
 - The recognition of education certificates
 - Duration of stay of citizens
 - Social guarantees, medical care
 - Shifting of manpower
4. Free movement of **capital** - the optimization process (in many areas there is no consensus) - transitional period until 2025.

*-www.eurasiancommission.org

Eurasian Economic Union (EEU)* (cont.)

The Kyrgyz Republic in the EEU (August 2015 – present)

Expectations (2014):

- Opening of EEU markets and the growth of export (agriculture) and re-export markets (PRC)
- Growth of customs duties
- Growth of investment (not connected with EEU)
- Better shifting of manpower

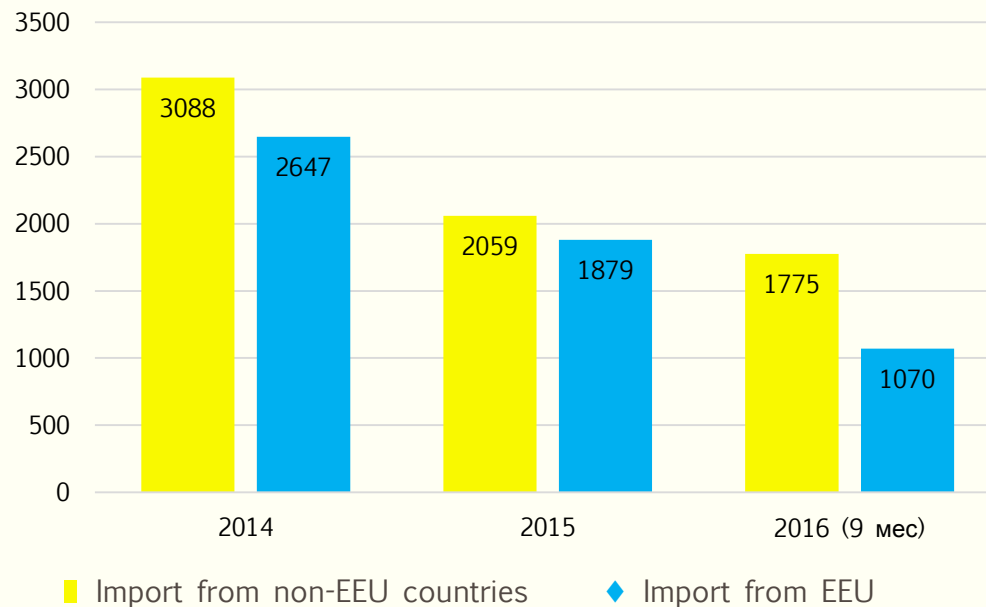
Reality (2016):

- The decline in mutual trade
- Lack of budget revenue growth
- No investments (not connected with EEU)
- A certain improvement in the shifting of manpower and its protection in the legal sector

Trade of KR 2014-2016 (9 months)

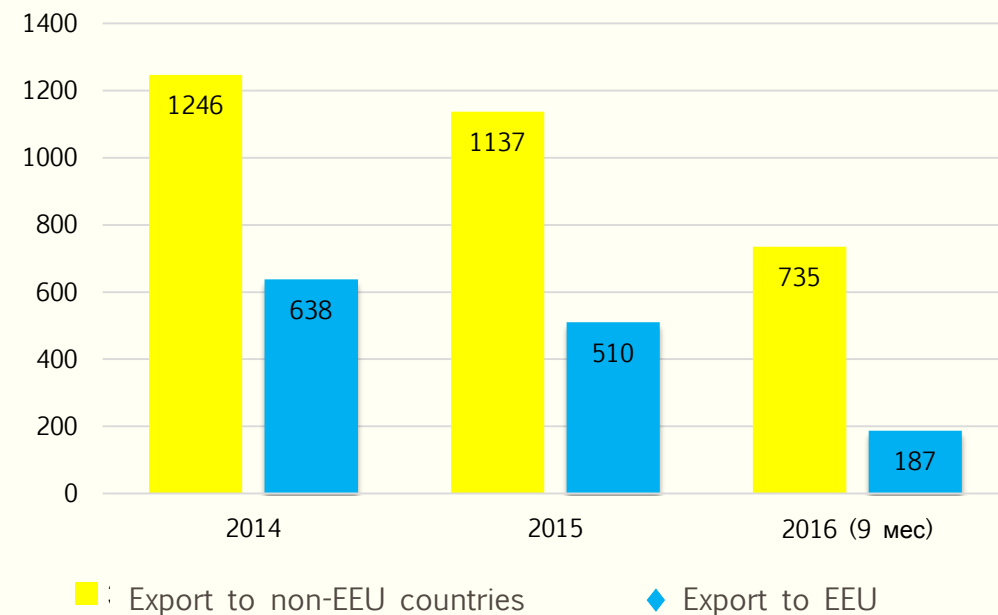
Import

Import into KR in 2014-2016
(9 mon.) mln US\$



Export

Export from KR in 2014 -2016
(9 mon.) mln. US\$



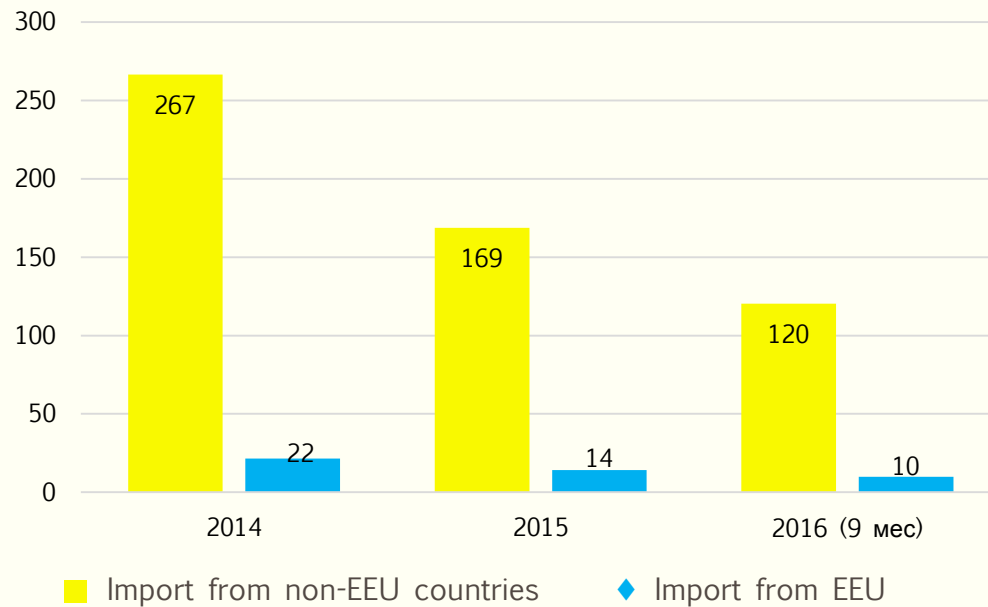
In 2016 (9 months) there are signs of recovery of imports in trade with third countries, an increase of 19% (9 months 2015), with the EEU countries - drop by 29%

Exports to third countries is restored - decline by 0.1%, from the EEU countries - drop by 46%

How about our partners within EEU in foreign trade? - Russia

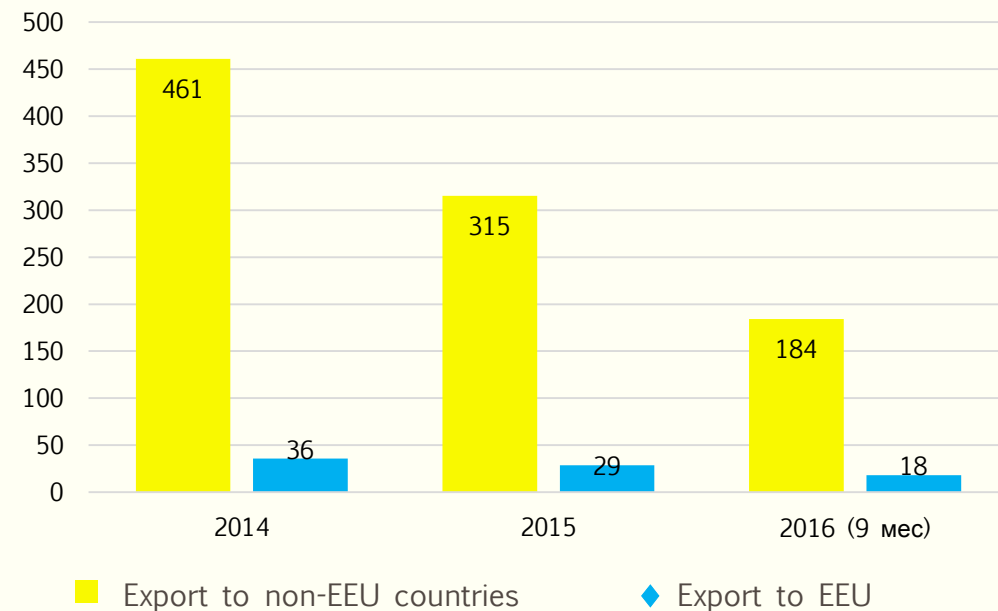
Import

Import into RF in 2014-2016
(9 mon.), bln US\$



Export

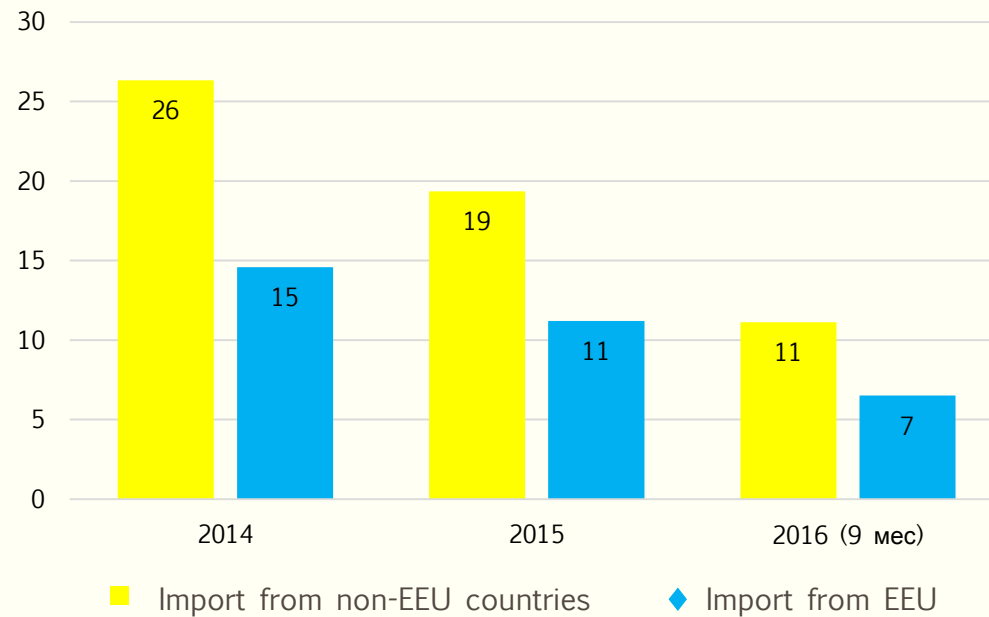
Export from RF in 2014 -2016
(9 mon.), bln US\$



How about our partners within EEU in foreign trade? - Kazakhstan

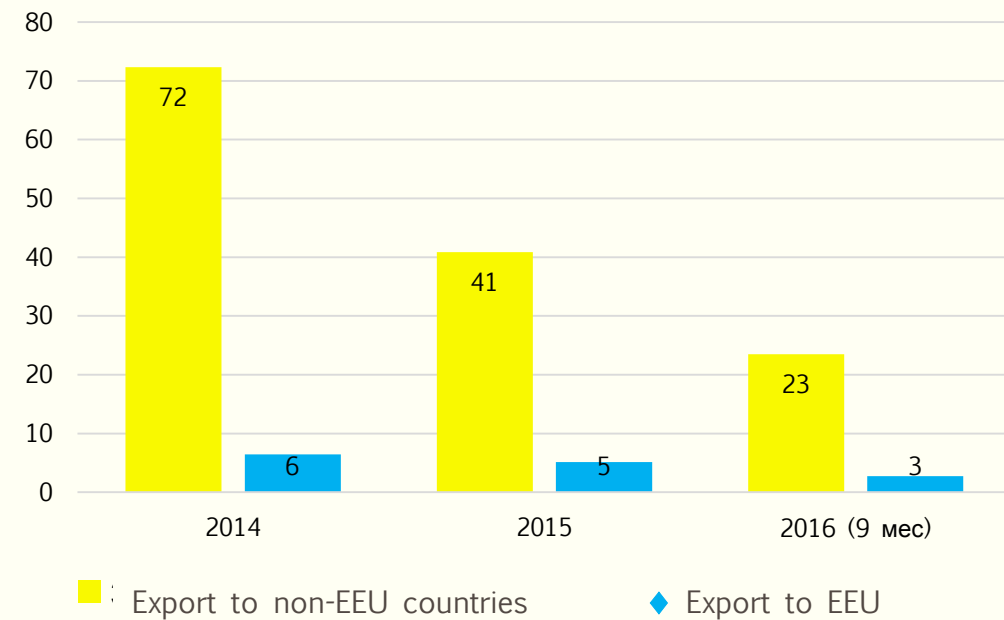
Import

Import into RK in 2014-2016 (9 mon.) ,
bln US\$



Export

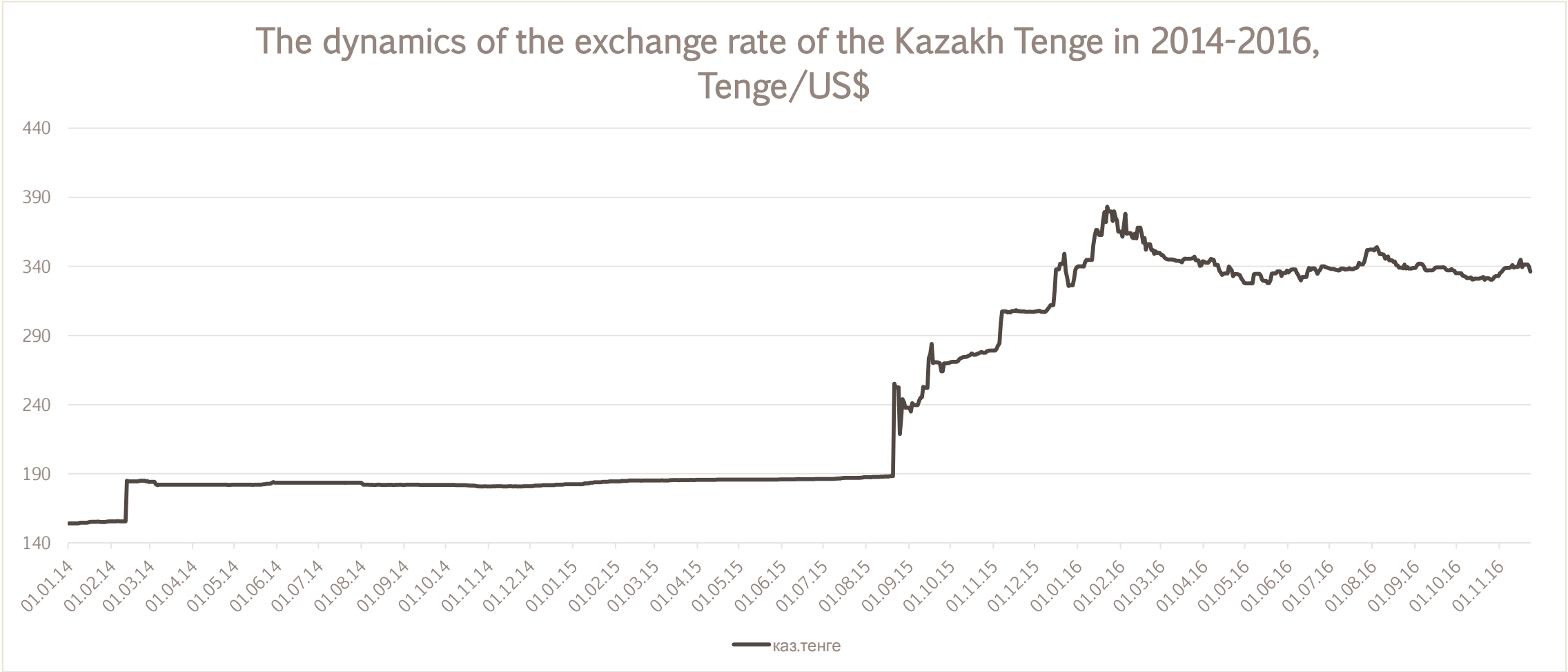
Export from RK in 2014 -2016 (9 mon.),
bln US\$



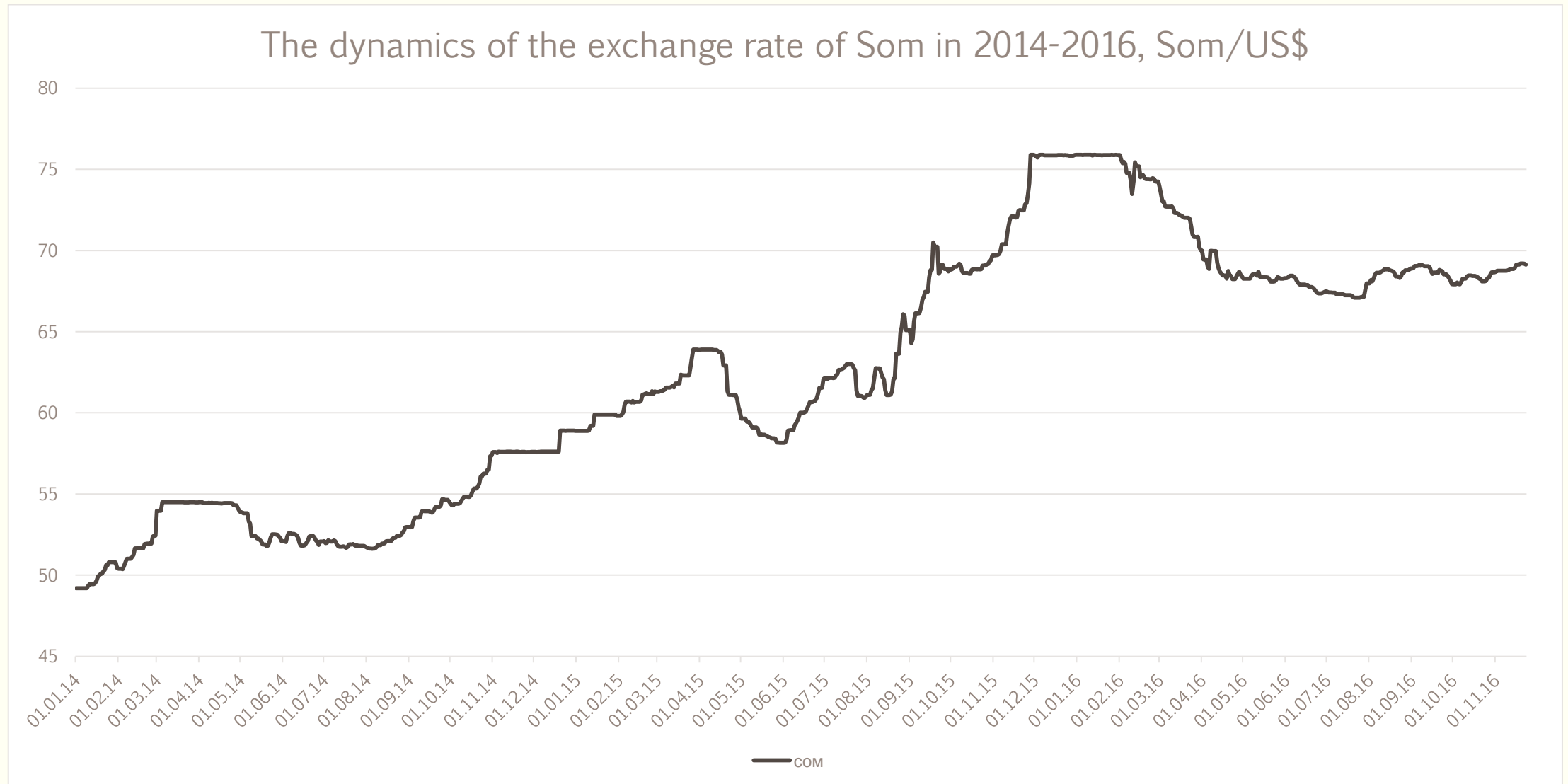
The devaluation of the Russian Ruble in 2014-2016- 74%



The devaluation of the Kazakh Tenge in 2014-2016 - 91%



The devaluation of Som in 2014-2016- 30%



Factors of the foreign trade

- This effect of currency shocks caused primarily by the decline in energy prices (oil and gas)
- Other factors of decline of foreign trade:
 - Geopolitical factors,
 - Decline of economical growth – GDP growth,
 - The decline in real wages has led to a decline in consumption in 2015 - first time since 1998
 - The structure of domestic production does not allow to quickly reorient the export flows or beneficial use of import substitution.

The effects of the current monetary policy

- ❑ Som strengthened against the ruble and tenge:
 - Ruble exchange rate changed from 1.5 to 1.08
 - Tenge exchange rate increased from 0.32 to 0.205
- ❑ Export of Kyrgyz goods in Russia and Kazakhstan became unprofitable
- ❑ Strong Som stimulates imports of Russian and Kazakh goods to Kyrgyzstan

Beneficiaries of the current policy:

- ❑ Re-exporters of goods to Russia and Kazakhstan shifted to imports from Russia and Kazakhstan to Kyrgyzstan
- ❑ Consumers goods get more benefit from lower prices
- ❑ The financial sector and its clients have suffered less than in Russia and Kazakhstan

Who is affected by this policy:

- ❑ Farmers and rural population as a whole
- ❑ Migrants

Additional obstacles and problems of integration of the Kyrgyz Republic in the EEU

- In addition to low prices for export to the Russian Federation and the Republic of Kazakhstan, a significant obstacle is such trade measures as technical barriers - sanitary and phytosanitary barriers
- Basically, they affect livestock products, and to a lesser extent, crop
- Series of measures to improve the situation are still not implemented, such as lab work is not everywhere, and not for all types of analyzes, the system of animal identification has not started, and so forth.
- There is a lack of resources (human and financial) and the experience of public bodies to protect the interests of Kyrgyzstan in the EEU

Conclusion

- ❑ Kyrgyzstan joined the EEU on the basis of geopolitical interests
- ❑ Since KR joined the EEU there have been significant changes in the political situation around Russia and change in the fundamental economic trends
- ❑ As a result, the economic benefits of Kyrgyzstan's joining the EEU were not fully realized
- ❑ Monetary policy has led to stability in a number of sectors, but has also led to stagnation of agriculture and reduced the attractiveness of export to the EEU
- ❑ Kyrgyzstan was not fully prepared to enter the EEU in terms of readiness of government agencies, business and technology infrastructure

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